



California Public Employees' Retirement System
Office of Audit Services
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (916) 795-3240
(916) 795-0900 phone • (916) 795-4023 fax
www.calpers.ca.gov

Agenda Item 3b

April 12, 2011

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. **SUBJECT:** Establishment of Specialty Investment Audit Services Spring-Fed Pool
- II. **PROGRAM:** Audit Services
- III. **RECOMMENDATION:** Approval to establish a new Request for Proposal for a Spring-Fed Pool of qualified firms to perform investment audit services
- IV. **ANALYSIS:**

The existing Real Estate Investment Audit Services Spring-Fed Pool contracts, approved by the Board of Administration, expire on June 30, 2012. These contracts enable the Office of Audit Services (OFAS) to engage independent firms to perform specialized compliance reviews of real estate advisors, partners, and managers. OFAS requests approval to develop a Request for Proposal (RFP) to replace and expand services provided by the existing pool with a Specialty Investment Audit Services Spring-Fed Pool. This new Spring-Fed Pool will consist of independent firms possessing specialized investment audit expertise to allow expanded capability and ability to perform more frequent compliance or consulting reviews. This new Spring-Fed Pool will provide CalPERS with increased assurance of compliance by investment advisors, partners, managers, and programs across the investment portfolio and enhance CalPERS ability to meet its fiduciary responsibilities. In addition, OFAS will continue to work closely with the Investment Office in performing these reviews.

Background

Since its inception in 1992, the real estate audit program has sought to provide the Board of Administration and the Investment Office with an independent evaluation of real estate advisors, general partners, and property managers' compliance with contractual obligations relating to real estate investment and management services. The OFAS Charter, approved by the Finance Committee on September 10, 2004, allows OFAS to contract with external audit firms to perform audit and attest services and to monitor performance of these contracts.

In September 2005, the Finance Committee approved the RFP to establish a Spring-Fed Pool of qualified firms to perform real estate compliance audits. In April 2007, the Finance Committee approved contract awards to seven firms, and subsequently refreshed the pool. These contracts will expire on June 30, 2012.

Pursuant to the Board of Administration Resolution OSSD-98-01 and Operations Support Services Division (OSSD) contracting guidelines, OFAS plans to utilize a pool of contracted firms with specialized real estate and other investment audit expertise to perform specific reviews. The awarding of a contract to a successful bidder will be subject to final negotiations and satisfaction of all requirements. Although qualified firms will be awarded contracts for inclusion to the Spring-Fed Pool, CalPERS is not obligated to engage or pay any firm until a letter of engagement is executed by OFAS and services are rendered.

Contract Term

OFAS recommends that selected firms be awarded a three-year contract with the option to extend contracts for two additional years. This is consistent with the terms of the existing Spring-Fed Pool.

Scoring

Scoring of the RFP will be weighted as prescribed by the Department of General Services policy. The following is the proposed point distribution:

	Maximum Score
Technical Proposal.....	350 points 70%
Fee Proposal.....	150 points 30%
	<u>500 points 100%</u>

Minimum Qualifications

Minimum qualifications will require each firm to meet the following requirements:

- Maintain a valid business license registered within the United States
- Provide its own work facilities, equipment, supplies, and support staff
- Have no pending litigation for fraud, malpractice, misrepresentation, negligence, disciplinary review, or similar cause of action
- Provide a statement that there are no conflicts of interest that would prevent the firms or its staff from conducting engagements
- Possess no less than five years of investment auditing experience

- Possess experience performing audit, consulting, or agreed-upon procedures of investment advisors, partners, or managers and must specify the type of investment experience of the company and its staff
- Have key personnel holding a Certified Public Accountant license or other applicable certifications, such as Certified Fraud Examiner, Chartered Financial Analyst, or Certified Investments and Derivatives Auditor
- At least one on-site staff must hold a valid license as an active Certified Public Accountant

V. STRATEGIC PLAN:

This agenda item is not a specific product of the Strategic or Annual Plans, but is part of the regular and ongoing workload of the Office of Audit Services.

VI. RESULTS/COSTS:

The Finance Committee approved an annual budget not to exceed \$1.5 million as of July 1, 2007. The Office of Audit Services will work closely with the Investment Office and the individual firms in the Spring-Fed Pool to minimize costs while achieving desired audit coverage as efficiently and effectively as possible.

MARGARET JUNKER, Chief
Office of Audit Services

PETER H. MIXON
General Counsel